

**State of South Carolina**  
**Before the**  
**South Carolina Public Service Commission**

**RE:   Application of Avondale Mills, Inc.            )**  
**For Approval of a New Schedule of Rates )**  
**and Charges for Water and Sewerage     )**     **Docket No. 2008-460-WS**  
**Services Provided to Customers           )**

**Direct Testimony**  
  
**Of**  
  
**Jack R. Altherr, Jr.**

**On Behalf of**  
  
**Avondale Mills, Inc.**

**March 19, 2009**

1 **Q. Please state your name and business address.**

2 A. My name is Jack R. Altherr, Jr., my business address is 506 South Broad Street, Monroe,  
3 Georgia 30655.

4 **Q. Where are you employed and in what capacity?**

5 A. I am employed by Avondale Mills, Inc. ("Avondale") where I serve as Vice Chairman,  
6 President, CEO and CFO.

7 **Q. What is your educational background and work experience?**

8 A. I graduated from the University of Alabama with a BS in Chemistry in 1971. I earned  
9 my MBA from the University of Alabama in 1976. I served in the US Naval Reserve  
10 from 1971-1974. As a Lieutenant Junior Grade, I served as a Disbursing Officer at  
11 Guantanamo Bay, Cuba. As a CPA, I was employed by Arthur Young & Company in  
12 Alabama where I served as an auditor and consultant from 1976 to 1981. In 1981 I was  
13 employed by the Birmingham Bolt Company as controller. I joined Avondale Mills, Inc.  
14 in 1982 where I have worked continuously since.

15 **Q. What is the purpose of your testimony in this proceeding?**

16 A. The purpose of my testimony is to sponsor the application filed by Avondale for an  
17 adjustment of existing water and sewer rates and the establishment of rates for certain  
18 other water and sewer services.

19 **Q. Would you please explain why Avondale has filed the water and sewer rate  
20 application?**

21 A. Avondale acquired the existing water and sewer system in September 1996 as part of the  
22 assets purchased from the Graniteville Company. Since the acquisition of the water and  
23 sewer system Avondale has operated the system under monthly rates which were

1 approved by the Public Service Commission of South Carolina ("Commission") in 1980.  
2 Since the acquisition of the system, the cost to provide water and sewer service has  
3 increased drastically. From the date of acquisition of the water and sewer system in 1996  
4 until the shutdown of Avondale's textile operation in 2006, the textile operation provided  
5 a substantial subsidy to the water and sewer operation. Since the shutdown of Avondale  
6 in 2006 the shareholders of Avondale have provided substantial subsidies ranging from  
7 \$700,000 - \$800,000 per year over the last three fiscal years.

8 The shareholders of Avondale have a responsibility to their customers and various  
9 regulatory agencies to maintain the financial integrity of the company. This application  
10 was necessitated to provide proper maintenance to meet the standards mandated by the  
11 Department of Health and Environmental Control. The rates contained in our application  
12 will allow Avondale to maintain the system in a satisfactory manner and will mitigate the  
13 obligation of Avondale's shareholders to subsidize the water and sewer operation. The  
14 level of financial loss contained in our application demonstrates the need for the rate  
15 relief requested.

16 **Q. Mr. Altherr, what test year has Avondale utilized in the financial statements**  
17 **contained in this application?**

18 A. Avondale's fiscal year ends on the last Friday in the month of August. In this application  
19 we have used the fiscal year ending August 29, 2008 as our test year. This was the most  
20 recent twelve-month period for which full data was available at the time of our rate  
21 filing.

22 **Q. Would you please provide a brief explanation of the exhibits contained in**  
23 **Avondale's rate filing?**

1     A.     Yes.

2             Exhibit A: This exhibit contains the proposed monthly recurring water and sewer  
3     rates. In addition this schedule reflects Avondale's request for the approval of new rates  
4     for tap in fees, notification fees, account set up fees, reconnections charges, and late  
5     penalty charge.

6             Exhibit B: This exhibit reflects Avondale's audited Statement of Net Assets in  
7     Liquidation at August 29, 2008.

8             Exhibit C: This exhibit reflects Avondale's Pro Forma Income and Expense  
9     Statement for the test year ended August 29, 2008. This schedule shows a per book loss  
10    during the test year of \$864,725 and a negative operating margin of 780.32%. After  
11    accounting and pro forma adjustments, an operating loss of \$614,311 and a negative  
12    operating margin of 554.35% results. Finally, after the proposed increase and pro forma  
13    accounting adjustments, an operating loss of \$5,848 and a negative operating margin of  
14    .8079% are reflected.

15            Exhibit D: This exhibit reflects comparative income and expense statements for  
16    the water and sewer operation of Avondale. This schedule further demonstrates the  
17    substantial loss from the water and sewer operation experienced during the latest two  
18    fiscal years.

19            Exhibit E: This exhibit contains the calculation of the annualized increase in water  
20    and sewer revenue included in the company's application. This calculation is based on  
21    customer specific usage data for the test period.

22            Exhibit F: This exhibit reflects a detailed listing of the water and sewer fixed  
23    assets. In addition, this exhibit reflects the annualized depreciation expense and the

1 accumulated depreciation through the end of the test period. Avondale is seeking  
2 approval of the depreciation rates contained in this exhibit as a part of our application.

3 Exhibit G: This exhibit reflects a copy of the current customer bill form utilized in  
4 billing the company's customer on a monthly basis. In conjunction with ORS's audit,  
5 Avondale has agreed to revisions to our existing customer bill form.

6 Exhibit H: This exhibit contains a letter from the Department of Health and  
7 Environmental Control, dated December 16, 2008, asserting that Avondale has the proper  
8 operating permits related to the water and sewer system.

9 **Q. Mr. Altherr, would you please provide a brief explanation of the pro forma**  
10 **accounting adjustments included in Exhibit C?**

11 **A.** Yes, Avondale has included 9 accounting and pro forma adjustments to the per book  
12 revenues and expenses to reflect known and measurable changes in our rate application.

13 Accounting and pro forma adjustments 1 and 2 propose to increase wages and  
14 contract labor to reflect a 3% inflation adjustment.

15 Accounting and pro forma adjustment 3 reflects a reduction in per book purchased  
16 water to reflect a 20% unaccounted for water factor.

17 Accounting and pro forma adjustment 4 reflects an increase in purchased sewer  
18 treatment expense. This adjustment was made to reflect an annualized expense level and  
19 a recent increase in treatment expense from the Aiken County Public Service Authority.

20 Accounting and pro forma adjustment 5 reflects a reduction in maintenance and  
21 repair expense to reclassify an item which should have been capitalized.

22 Accounting and pro forma adjustment 6 reflects annualized depreciation expense  
23 on the item capitalized in accounting and pro forma adjustment 5.

1 Accounting and pro forma adjustment 7 reflects rate case expenses incurred by  
2 the company in conjunction with this filing.

3 Accounting and pro forma adjustment 8 reflects the proposed increase in monthly  
4 water and sewer revenue as reflected in Exhibit E of the company's application.

5 Accounting and pro forma adjustment 9 reflects the gross receipts taxes on the  
6 proposed increase in water and sewer revenue.

7 **Q. What ratemaking methodology does the company propose that the Commission**  
8 **employ in this rate case?**

9 A. Avondale proposes that the Commission utilize an operating margin methodology in this  
10 rate case filing.

11 **Q. Mr. Altherr, does this conclude your testimony?**

12 A. Yes, it does.